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BACKGROUND PAPER

US SANCTIONS AGAINST CHINA

EXGIST

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• After the Tiananmen incident, the US put into place a package of targeted sanctions against China's military and police forces, and against favorable trade and development activities in China. The following measures remain in place:

-- No Arms and Military Technology Cooperation. Weapons deliveries remain suspended as does military technology cooperation. Pending FMS cases have been or are being closed out (see attached paper). We have not, since June 1989, exported arms to China under either commercial or government programs.

-- Embargo on Sales to Military/Police. No licenses are being issued for dual-use civilian technology items for the Chinese police or military.

-- Munitions List. Licenses for items on the USG's unilateral munitions list remain suspended.

-- Export Control Liberalization. The US remains opposed to considering China-specific proposals for easing COCOM controls.

• After briefly lifting sanctions on non-military satellite technology licenses, USG reimposed Category II MTCR sanctions on China in August 1993. This was in response to M-11 missile-related technology sales to Pakistan. See attached paper for background on MTCR category sanctions.

Attachments:

- A - Closeout of PRC FMS Programs
- B - State of Play: China MTCR Sanctions
- c - MTCR Category Sanctions Defined

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CLOSEOUT OF PRC FMS PROGRAMS

Four major FMS programs were affected by President Bush's 5 June 1989 decision to suspend all government-to-government sales and commercial exports of weapons to the PRC.

- Large Caliber Ammunition Modernization Program (LCAMP). A \$27.34 million program to provide the PRC with the technical data, technical assistance, and equipment necessary to establish two manufacturing facilities in the PRC, one to produce 155mm fuzes and the other to produce explosive elements for the fuzes. By the 5 June suspension, the program had been fully paid for but not completed.

- AN/TPQ-37 Radars. A \$60.87 million program to sell the PRC four AN/TPQ-37 "Firefinder" artillery radars, support equipment, and training. By the suspension, two radars and some support equipment had been delivered to the PRC. The two remaining radars had been completed and, along with additional support equipment and spares, were put in storage at PRC expense. The PRC had paid in \$52.80 million of the total program value.

- Mk46-MOD 2 Torpedoes. A \$8.6 million program to sell the PRC four Mk46 MOD torpedoes, plus support equipment, spares, and training. By the suspension, the PRC had fully paid for the program, but had received only support equipment. The torpedoes and related material were put in storage at PRC expense.

- F-8-II Upgrade. A \$50.20 million program, designated PEACE PEARL, to develop, test, and produce 55 upgrade fire control system kits and deliver them to the PRC to install in its F-8-II aircraft. Dramatic price increases led the PRC in April 1990 to decide to complete openly as much of the program as could be fitted into the \$205.70 million it had already paid in. This allowed for the completion of four prototype kits but for no developmental testing or production. The four kits, two PRC F-8-II aircraft, and a F-8-II mockup were placed in storage at Grumman at PRC expense.

At a meeting in Beijing, 4-16 December 1992, the USG and PRC agreed to close out the four programs. Defense articles produced under the programs and in storage and other items belonging to the PRC were immediately shipped to the PRC, and refunds of \$15 million (January 1993) and \$5 million (March 1993) were made in partial settlement of the money owed the PRC upon final closeout of the four programs. At a USG-PRC meeting in Denver, 25-26 August 1993, the USG agreed to refund the PRC a further \$5.5 million of the estimated \$13 million anticipated as excess on the 20 remaining open cases. Closeout of 17 of the 20 cases is set for 31 December 1993; two cases are scheduled to be closed out by 31 March 1994 and the last case by 30 June 1994. The final refund to the PRC will be made subsequent to final financial audit of individual case records (target date 31 October 1994).

The PRC has requested that, if no buyer can be found for the three PEACE PEARL Radar System Integration Benches (RSIBs), considered not releasable to the PRC, the USAF review the individual components for releasability and ship them to China. This request is under review.

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SECRET

Attachment to Doc 15-Js

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SECRET

-- CATEGORY I SANCTIONS ARE IMPOSED IF THE TRANSFER INVOLVES COMPLETE MISSILE SYSTEMS AND MAJOR SUBSYSTEMS.

-- CATEGORY II SANCTIONS ARE IMPOSED IF THE TRANSFER INVOLVES LESS SENSITIVE, DUAL-USE ITEMS IN THE MTCR ANNEX.

Q: What specific actions do the sanctions consist of?

A:-- CATEGORY II SANCTIONS REQUIRE:

- DENIAL OF NEW EXPORT LICENSES FOR MTCR ANNEX ITEMS TO THE SANCTIONED ENTITIES FOR TWO YEARS, AND
- DENIAL OF USG CONTRACTS RELATING TO MTCR ANNEX ITEMS WITH THE SANCTIONED ENTITIES FOR TWO YEARS.

-- CATEGORY I SANCTIONS REQUIRE:

- DENIAL OF ALL NEW INDIVIDUAL LICENSES (NOT LIMITED TO MTCR ANNEX ITEMS) FOR EXPORTS TO THE SANCTIONED ENTITIES FOR AT LEAST TWO YEARS; AND

LIMITED OFFICIAL USE

Attachment to Doc 15-Js

- DENIAL OF USG CONTRACTS WITH SANCTIONED ENTITIES FOR AT LEAST TWO YEARS.

-- IF IT IS FURTHER DETERMINED THAT THE TRANSFER "SUBSTANTIALLY CONTRIBUTED" TO THE DESIGN, DEVELOPMENT, OR PRODUCTION OF CATEGORY I MISSILES IN A NON-MTCR COUNTRY, AN ADDITIONAL SANCTION REQUIRES:

- A BAN ON ALL IMPORTS INTO THE UNITED STATES OF PRODUCTS PRODUCED BY THESE ENTITIES FOR AT LEAST TWO YEARS.

-- THESE SANCTIONS APPLY TO ALL COUNTRIES.

-- IN THE CASE OF CHINA, THE HELMS AMENDMENT TO THE MISSILE

LIMITED OFFICIAL USE